

SHARP SLOWDOWN IN SOVIET GROWTH REPORTED BY C.I.A.

Agency Puts Economic Rise
at 2.5 Per Cent Yearly,
Below the U.S. Level

GOLD RESERVE FALLING

Farming Setback and Shift
in Investment Believed
Responsible for Lag

By EDWIN L. DALE Jr.

Special to The New York Times

WASHINGTON, Jan. 7—An exhaustive analysis by the Central Intelligence Agency has concluded that the Soviet Union's economic growth in the last two years has been less than 2.5 per cent annually, well under the rate of the United States.

In addition, the C.I.A. has concluded that Soviet gold reserves have fallen to less than \$2 billion, far below estimates made elsewhere. These conclusions have been made public by the agency.

The C.I.A. put the value of the Soviet gross national product, or total output of goods and services, last year at about \$260 billion, slightly less than half that of the United States. The United States is widening the gap each year at recent growth rates, according to the report, and this widening is expected to continue.

The Central Intelligence Agency has virtually exclusive responsibility in the United States Government for evaluating the Soviet economy. Several hundred economists and other analysts work full time on the question. They primarily use published sources, which are now numerous, but the information is supplemented by some data obtained clandestinely.

Growth Slowed Abruptly

Like many other analysts, the C.I.A. experts concluded that Soviet economic growth in the postwar period was rapid until the last few years. While the rate varied from year to year, it was usually between 6 and 10 per cent, well above the United States average of 2.5 to 3.5 per cent.

In the last three years, partly as a result of a surge in 1961 following a recession, the United States growth rate has averaged about 5 per cent. The official estimate for the next year is also 5 per cent.

For the future, the C.I.A. analysts expect that the Soviet Union will be able to improve upon the poor performance of 1962 and 1963.

However, they do not believe that the Russians will be able to return to the growth rates of the earlier postwar period. A growth in the range of 4 to 5 per cent, about the same as that of the United States, is con-

sidered a reasonable prospect.

Since these are percentages and the United States has a much higher base, such a result would mean that the gap between the two economies would continue to widen in absolute terms.

In addition to the slowdown in the Soviet growth rate, the C.I.A. has also detected a major reduction in the rate of growth in investment — the base for future growth. In 1962 and 1963 each, total investment rose only 4 to 5 per cent, far less than in the earlier postwar period.

The C.I.A. analysts develop a figure for the Soviet gross national product by valuing in dollar terms the output of all the sectors of the Soviet economy. The Soviet Union does not use the concept of gross national product in its statistics.

Soviet Conclusions Differ

Soviet figures on industrial production alone would indicate much less of a slowdown in over-all growth than the C.I.A.'s conclusions. However, the C.I.A. is confident that its analysis is correct, based on various techniques of evaluating Soviet official statistics and other information.

There is no doubt in the mind of the analysts that the Soviet rate of growth has slowed greatly in the last two years, although they do not say that their figures are correct to the last dollar.

The analysts stress that their picture is not one of an economy in "collapse" or suffering from such ills as unemployment. But neither is the Soviet economy any longer a world pacemaker in expansion and growth. Every major non-Communist industrial nation has exceeded the Soviet growth rate in the last two years.

Three major reasons are given for the slowdown in economic growth.

The first is a shift in the so-called "mix" of the Soviet economy, that is, investment away from the heavy industries, raw materials and power supply toward the more sophisticated elements of modern industry.

"It was easier to build more and more steel mills and cement plants and hydroelectric dams than it is to build chemical plants and diversified consumer goods," one analyst said.

Arms and Space Costs Cited

The second reason has been a very large increase in military and space spending since about 1957 or 1958. While this counts as a part of the gross national product, it is "anti-growth" in that it takes resources and personnel from productive investment.

This has been particularly true since the shift of the military effort toward modern weapons such as missiles.

The third reason is the serious decline in agricultural output in the last two years. The C.I.A. now calculates that the total Soviet food production this year will be only about 3 per cent above 1956 and, on a per capita basis, will actually be 7 or 8 per cent less than in 1956. Wheat output last year is put at a minimum of 10 million tons below 1962.

Part of the Appleton results from bad weather. In the peak Soviet agricultural year, 1961, food output was 20 per cent above 1956.

The analysts are careful not to attribute the serious worsening of the Soviet position to the nature of the state-controlled Soviet economic system as such, though they say this could be a factor.

The C.I.A. analysts foresee no decline in the Soviet resources devoted to modern weapons, though there might be small cutbacks in conventional forces. Nor is there expected to be any easing of the investment problem posed by the move away from the simpler basic industries.

Thus the overstrain on the economy, in the sense of a short-

age of human and material resources for investment, is expected to continue, even with some improvement in farm output. The best course for Moscow, it is believed, would be to find extra resources, in the form of plants and equipment, in the West.

However, given the low level of Soviet gold reserves, this could be done only if the Western nations were willing to sell on credit, preferably, from the Soviet viewpoint, credit of more than five-year terms.

This reasoning is a factor behind the strong United States drive in the North Atlantic Treaty Organization to get agreement on a limitation of credit terms extended by West European countries to the Soviet Union.

Soviet gold production is put at about \$150 million annually. Moscow's sales of gold in the West have been running at more than \$200 million a year, and last year were a little more than \$400 million.

Thus, gold sales cannot finance a big extra volume of Soviet imports of capital equipment from the West. Credit terms would be essential, the C.I.A. believes.

The Russians have approached suppliers in Britain with specific proposals for purchases on terms running well beyond five years. They are not believed to have been successful, but the British Government refuses to make a binding decision barring such terms.

Gain Asserted by Soviet

By HARRY SCHWARTZ

The chief Soviet economic planner, Pyotr F. Lomako, asserted last month that his country was continuing to gain on the United States in industrial production.

Mr. Lomako asserted that

Soviet industrial production in 1963 was 65 per cent of that of the United States a gain of 2 percentage points over the 63 per cent ratio that the Soviet Union reported for 1962.

While the Central Intelligence Agency estimates that the annual Soviet economic growth during the last two years was less than 2.5 per cent, the Soviet Union asserts that in 1962 alone its national income—a concept similar to gross national product—rose 6 per cent.

Last month Premier Khrushchev denounced speculation in the West that the Soviet Union would need credits to realize its ambitious chemical expansion program. He asserted that the Soviet Union would be able, if necessary, to achieve the chemical production goals from its own resources.

While acknowledging that Soviet grain production had fallen last year, Mr. Khrushchev spoke glowingly of what he asserted were continued high rates of industrial growth. He said that Soviet cotton production last year was the highest in the country's history.

The Premier gave for the first absolute figures on the growth of production of key commodities last year; these data are compared as follows with the corresponding output figures for 1961 and 1962: (All data are in millions of metric tons except for electricity, which is given in billions of kilowatt-hours, and shoes, stated in millions of pairs).

	1961	1962	1963
Steel	70.8	76.3	80.0
Oil	166	186	205.6
Electricity	328	369	411.6
Cement	50.9	57.3	60.3
Shoes	443	456	461
Fertilizers	15.3	17.3	20

Many Western observers have noted that in the last two years the Soviet economy was showing signs of slowing some-

what from the rapid growth rate of the nineteen fifties. But the estimate of the slowdown made public by the C.I.A. yesterday appears to be far more radical than any other yet published in the West by a responsible source.

Specialists on the Soviet economy have been aware for many years that comparisons of Soviet and American economic growth are full of pitfalls, and that even analysts who accept the same basic data may come to rather different conclusions.

One difficulty arises from the question of what to measure. The Soviet analysts include in their estimates of Soviet production only the output of material goods—steel, grain, shoes, etc.—and leave out the production of services—haircuts, medical services, the work of teachers, etc.

American analysts include both material production and services in their analyses. The two different definitions tend to produce differences in final evaluations.

A second difficulty arises from the lack of an unambiguous way of adding up production of different goods and services. Should output be valued at Soviet prices or American prices? Experiments have been made in the United States in which the same group of production targets have been valued in both Soviet and American prices. Significantly different results could be obtained, depending upon which price system was employed.

INTERPRETIVE REPORT

CIA Trespass Feared at State

By BERNARD GWERTZMAN
Star Staff Writer

There is unhappiness in the State Department over a decision by the White House permitting the Central Intelligence Agency to publicize a recent analysis of the Soviet economy. Some department officials fear that the CIA is intruding on their role as the shaper of American foreign policy. They say the CIA should stick to its intelligence gathering.

Some department officials which claim radically with the CIA is intruding official Soviet figures—and in their role as the shaper of American foreign policy. They intelligence had arrived at the same conclusions before the CIA did.

Agency's Viewpoint

The CIA in this case believes release of information to the press is only performing a necessary function in informing the world about the sorry state of Russia's economy, and by publicizing the administration's policy against long-range credits which might ban the Soviet Union out.

No State Department official would comment publicly on this matter, but it is known that the CIA, with President Johnson's approval, has been providing journalists with a negative view of the Soviet economy.

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The analysis has called for an embargo on long-term credits to the Soviet Union since such credits would allow the Kremlin to accelerate its economy at minimal cost. State department officials agree with these estimates.

Released in December

It was learned that the CIA began releasing the substance of the analysis in late December after CIA Director John A. McCone received permission from President Johnson. The report appeared in an article by Charles Bartlett in the December 29 Star.

Mr. McCone was reported to believe that it was necessary for the American public to know the full extent of the sad state of the Russian economy—and how credits might boost the regiment at no gain to the West.

There had been reports immediately following Premier Khrushchev's December 9 speech that the Soviet Union would be emphasizing the consumer goods industry and might be seeking increased trade with the West. The CIA analysis, backed by the State Department's experts, sees Russia's priority of defense and industry unchanged, with consumer goods still lagging behind.

Premier Wants Credit

Soviet Premier Khrushchev has shown an interest in purchasing fertilizer plants and source credit to improve his nation's agriculture. Some top-ranking officials believe that a well fed Russian population might in the long run be to this country's good holdings, interest.